



CATAWBA COUNTY

P.O. Box 389 • 100-A South West Boulevard • Newton, North Carolina 28658-0389

Catawba County Board of Commissioners and
Citizens of Catawba County, North Carolina

October 7, 2005

State law requires that all local governments publish within four months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of Catawba County for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Martin, Starnes & Associates, CPAs, P.A., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federal and state mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports, along with the schedule of expenditures of Federal and State awards, findings and recommendations, if any, are published in a separate report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

COUNTY PROFILE

Located in a peaceful valley just east of the Blue Ridge Mountains, Catawba County is a land of scenic beauty, diverse cultures, and thriving industry. Three beautiful lakes are located within its 414 square miles, and the Catawba River winds along its northern and eastern border. The County is named for the river and the Catawba Indians who foraged in the valley and were friendly and helpful to the first settlers who arrived in 1747.

Catawba County was officially established on December 12, 1842 when Lincoln County was divided by an act of the North Carolina General Assembly. The North Carolina General Assembly passed legislation to the effect that "the present Town of Newton as selected and laid out shall be the site and location of the courthouse and jail of Catawba County." The County has eight cities and towns and a population of 148,797, ranking 13th out of 100 counties in North Carolina.

In 1937, Catawba County became the third county in the State to adopt the Council-Manager form of government. The Board of Commissioners is comprised of a five-member board elected at large on staggered terms in a countywide election. The Board of Commissioners is the policy-making and legislative authority for the County. It is responsible for adopting the annual budget, approving zoning and planning issues and other matters related to the health and welfare of the County. The Board makes appointments to various boards and commissions and appoints the County Manager. The County Manager is the Chief Executive Officer and is responsible for enforcement of laws and ordinances, preparation and administration of the annual budget, delivery of services, implementing policies, managing daily operations and appointment of department heads.

Catawba County provides its citizens with a broad range of services that include public safety, environmental protection, health and human services, cultural and recreational programs, community and economic development, and education. This report encompasses the County's activities in maintaining these services and includes its financial support to certain separate agencies, boards and commissions to assist their efforts in serving citizens. Among these are the Catawba County, Hickory City and Newton-Conover City Schools, Catawba Valley Community College (CVCC), Catawba County Economic Development Corporation and the Hickory Metro Convention and Visitors Bureau.

The annual budget serves as the foundation for the County's financial planning and control. Each year all County departments are required to submit requests for appropriation to the County Manager, who then compiles a proposed budget and presents it to the Board of Commissioners for review. The Board is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the County's fiscal year.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment with which the County operates.

Local economy. Catawba County is the center of a heavily industrialized area. The County is renowned as a furniture-manufacturing center, with sixty percent of the nation's furniture produced within a 200-mile radius of Hickory, the County's largest municipality. The Hickory area has over 150 retail showrooms and outlets as well as two internationally known furniture malls totaling one million square feet of space.

Economic activity in the region continues to improve as evidenced by the Western North Carolina Economic Index, which tracks the level of economic activity in 25 counties, including Catawba. In March 2005, the Economic Index showed that 22 counties had job growth, primarily around the Asheville and Hickory areas. The index increased to 116.2 in March, up from 109.1 in June 2004, correlating to an annual rate of 4.0 percent since the end of 2004. As a result of this increased economic activity, Catawba County's unemployment rate has decreased from a high of 9.4% in June 2003 to 6.8% in June 2004, to 6.6% in June 2005 over the last three years.

With heavy job losses occurring in the County's traditional industries of furniture and textiles over the past few years, some businesses were forced to vacate industrial buildings, which resulted in opportunities for new and existing industries. Idia Italia bought a former Hickory Chair furniture plant and will add 140 jobs over the next year. In addition, Armacell bought a vacant manufacturing building and plans to hire 70 employees during the same time period. Finally, German-based Getrag Gears, one of the world's leading manufacturers of power train technology bought a former Hooker furniture plant in the County and has begun an \$81 million expansion and plans to expand its workforce by 350 people in four years.

To address changing economic conditions, the Board of Commissioners has focused its economic development efforts on diversification within the County and to tout an eager and skilled manufacturing workforce to other industries. As a result of these efforts, several manufacturing industries have made recent economic announcements over the past year. ZF Lemforder, one of the world's largest automotive suppliers, announced its plans for a \$37 million investment in the County by building a 150,000 square foot facility which will employ 200 people by the end of 2005. In addition, German-based Poppelman Plastics announced their investment of \$15 million into a 110,000 square foot facility on thirty acres, which will generate 60 jobs by late 2005 and manufacture horticultural pots. Finally, Ameritex, a manufacturer of boating accessories, opened a plant in June 2005, which will employ 200 people within two years. Company executives cited the region's loss of furniture jobs and the availability of skilled workers as a good fit for their company.

In addition to a large manufacturing base, the County is supported by a strong service-sector, accounting for more than half of the economic engine in Catawba County. The County is a major medical hub, with two large medical centers, one county-owned and both profitable; a prospering medical and health care community; and many nursing home/retirement facilities.

Also, the County is a retail magnet for the region, capturing 60% of the retail sales in the four-county Metropolitan Statistical Area (MSA). Retail sales for the County increased 4.1% from the previous year and are poised to increase further with an announcement by Wal-Mart in April 2005 that it would transform its 115,000 square foot store into a 200,000 square foot Super Center, adding 200 jobs by the end of the year. Though Catawba County's population ranks 12th in the state, its retail sales per capita ranks 9th in North Carolina. Finally, the region boasts of a thriving tourism industry, with over \$178 million in tourism revenue generated in 2004, ranking the county 15th out of 100 counties in the state.

The local economy has also been given a potential boost with some recent state and national exposure. In August 2004, Catawba County was profiled in North Carolina magazine, published by Raleigh-based North Carolina Citizens for Business & Industry. The 20-page magazine profile included a detailed look at the county's economic woes of the last three years and its efforts to regroup. It also highlighted the area's strengths, including its educational and health-care facilities, geographic location, entrepreneurial spirit, solid financial services sector, high rates of volunteerism and a generally high quality of life in the region. In July 2005, Golf Digest Magazine ranked the area the 55th best place to golf out of 330 metropolitan statistical areas across the country. The rankings were based on four criteria: access to golf, weather, value and quality of golf. The only other North Carolina area to rank higher was the Wilmington area.

Long-term financial planning. The County prepares a five-year Capital Improvement Plan (CIP) each year and as of June 30, 2005 estimates \$96 million in capital needs over the next five years. This includes over \$54 million in school construction needs, with five new elementary schools planned for the three school systems in the County.

In March 2001, the Board of Commissioners formed a Citizens Advisory Committee to examine public school needs and to recommend options for future improvements to the three school systems and community college. This committee met several times over the course of three months, toured school facilities, heard presentations from each school system and the community college and received growth projections and financial information from county staff. The end result was a recommendation of \$122 million in school and community college needs to be spent over a six to eight year period.

To pay for those recommendations, the Catawba County Board of Commissioners in fiscal year 2003-04 dedicated two cents of the property tax rate, approximately \$2.6 million, along with debt retired each year towards new school construction. Over the last two fiscal years, the two cents have provided funding for the construction of a new Maiden High School, the conversion of Tuttle Middle School to an elementary school, the construction of a new Hickory middle school and a learning library and technology center at Catawba Valley Community College (CVCC).

In addition, as the county continues to grow, planning for infrastructure is essential to encouraging orderly economic development and preventing urban sprawl. The Board of Commissioners has continued a policy established in fiscal year 1994-95 by setting aside one and a half cents of the property tax rate, almost \$2 million, in fiscal year 2004-05 for future water and sewer projects throughout the County. Those needs equate to \$23 million over the next five years.

Another long-term initiative was the implementation of a strategic planning process called FORESIGHT that became one of the most successful public-private partnerships in long-range strategic planning in the United States. Established originally in 1985 by the Catawba County Board of Commissioners, it was recognized both regionally and nationally as an award-winning model for strategic planning.

In November 2001, the Catawba County Board of Commissioners established a new edition or generation of FORESIGHT, to be undertaken over a two-year period. The process included a review of basic information about the overall economy of Catawba County (e.g. demographics, economy, education, housing and quality of life.) Over one hundred citizens participated in four task forces studying economic opportunities in the areas of business and job creation, education, the environment, and increasing the County's exposure in Raleigh and citizen leadership at home. The four task forces completed their final report in July 2004 with strategies for stimulating economic growth in the county, which will be implemented over the coming months and years.

Cash management policies and practices. Under the authority of North Carolina General Statute 159-30, the County invests in obligations of the United States Treasury and several of its agencies and instrumentalities; high-grade commercial paper, certificates of deposit and participating shares in a Local Government Commission certified mutual fund for local government investment. The objectives of the County's investment program are safety, liquidity and yield, in that order. Investment vehicles are chosen with the greatest emphasis placed on credit quality and maturity. The cash and investment portfolio balance for the fiscal year ended June 30, 2005 for all funds is \$146 million. Investment income includes appreciation or depreciation in the fair value of investments at June 30, 2005. Increases/decreases in fair value during the current year; however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the County intends to hold to maturity.

Pension plans. Permanent County employees regularly scheduled to work 20 hours or more each workweek are required to participate in the North Carolina Local Governmental Employees' Retirement System. This system, as well as optional supplemental retirement plans available to employees and the required supplemental retirement plan for law enforcement officers, are discussed in more detail on pages 45-48 in the notes to the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Catawba County for its comprehensive annual financial report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents

conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Catawba County has received a Certificate of Achievement for the last 23 consecutive years. We believe this current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

In addition, the County also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated July 1, 2004. This is the sixteenth consecutive year that the County has received this award. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization.

Acknowledgements

Each County department's strong commitment to the goals, vision and mission statements of the County government is reflected in the services provided to the residents of Catawba County. We appreciate the cooperation of all the County departments in carrying out the financial activities encompassed in this report. The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. Special recognition is extended to Martin, Starnes & Associates, CPAs for their assistance with the report.

In closing, we thank the Catawba County Board of Commissioners for its leadership and support in making Catawba County a fiscally sound, well-governed community.

Respectfully submitted,

J. Thomas Lundy
County Manager

Rodney N. Miller
Finance Director